



2010-2011 BUDGET REPORT

31st May 2010

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PART 1 – ANNUAL BUDGET

1.1 Introduction

During the 2010/11 financial year we hope to raise R1, 356 billion in billed revenue, R103,659 million in grants and subsidies. Of the R1, 356 billion revenue anticipated R1,258 billion will be spent on operational budget to deliver services like water reticulation, electricity distribution, and sanitation and sewerage reticulation and refuse removal. The rest amounting to R214,330 million will be spent on capital budget to achieve the following objectives:

1. To provide sustainable services to the community.
2. To promote sustainable environmental services.
3. To promote sustainable governance to the local community.
4. To ensure sustainable governance practice within the municipality.

In compiling this 2010/2011 annual budget the strategic planning document was compiled and reconciled with the IDP. On the 11th and 12th March 2010, a strategic planning session was convened to review the projects as contained in the IDP and Strategic plan. Inputs were taken from the Local Government Turnaround Strategy, National Political Priorities and needs of the community as contained in the IDP. The result of this session was a strategic planning document that ranks projects according to the importance based on documents mentioned above.

The Strategic Planning document stipulating the Strategic objectives, measurable objectives and strategies is attached hereto as Annexure 20.

The budget that was tabled at a council meeting on the 30th March remains the same, including changes due to gazetted grants from Provincial Government and inputs from Political Heads.

2.2 Resolutions

Council resolves:

1. That the annual budget of Mogale City Local Municipality for the financial year 2010/2011 and indicative estimates for the two projected outer years 2011/2012 and 2012/2013, as set out in the tables listed below be approved:

1.1 Budget Summary : Table A1,

1.2 Budgeted financial performance: (Revenue and Expenditure by standard classification: Table A2.

1.3 Budgeted financial performance : (Revenue and Expenditure by Municipal Votes: TableA3

1.4 Budgeted financial performance : (Revenue and Expenditure : Table A4

1.5 Budgeted capital expenditure vote: (Standard classification and funding: Table A5

1.6 Budgeted financial position : Table A6

1.7 Budgeted cash Flows: Table A7

1.8 Cash backed reserves/accumulated surplus funds reconciliation : Table A8

1.9 Assets management: Table A9

1.10 Basic service delivery measurements: Table A10.

2 The proposed increase on property rates of 10%, based on the existing and supplementary valuation rolls be approved.

3 The proposed increase on sanitation tariffs of 10% on the 2010/2011 budget be approved.

4 The proposed increase on electricity tariffs of 16% on the 2010/2011 budget be approved.

5. The propose increase on water tariffs of 14.1% on the 2010/11 budget be approved.

6. The increase of the remaining tariffs of 10% be approved as reflected in **Schedule 3**, however some tariffs have decreased for example, tariffs for Development and Planning has been reduced to be align to the National Building Regulations in order to implement the issuing of fines by our Building Control Inspectors that has been trained as Peace Officers.

7. Restructuring of library tariffs so that they exclude library membership fees but include the attached tariffs in **Schedule 3** be approved.

8. The credit control and debt collection policy be approved as attached in Annexure 13.

9. That the draft revised indigent management policy as reflected in Annexure 14 be approved.

10. The draft budget policy attached as Annexure 15 be approved.

11. The amendments on the rates policy set out in section 4.2.1 of this report be approved as attached in Annexure 16.

12. That the Immovable Property, Plant and Equipment Policy attached as Annexure 17 be approved.

13. That the amendments on the Supply Chain Management set out in section 4.2.5 of this report be approved as attached in Annexure 18.

14. The Proposed Water By-Laws for spot fines be approved as attached in Annexure 19.

15. The draft 2010/2011 Integrated Developmental Plan Review as attached in this report be approved.

3.3 Executive Summary

2010/2011 Operational budget proposal

- 3.3.1 The projected overall spending envelope for the 2010/2011 MTREF amounts to R1, 472 billion. R1, 258 billion will be spent in the operating budget and R214,330 million will be invested in capital infrastructure.
- 3.3.2 The total estimated operational revenue for 2010/2011 from own sources is R1,356 billion and estimated R103,659 million from National, Provincial and District Municipality as grants and subsidies. The estimated revenue is 16% above the current adjusted budget. On the other hand the proposed estimated expenditure for 2010/2011 annual budget 13% above the current adjusted expenditure.

Table: 1 Operational Expenditure 2009/2010 to 2012/2013

	2009/2010 Original Budget	2009/2010 Adjusted budget	2010/2011 Proposed budget	2011/2012 Forecasted Budget	2012/2013 Forecasted Budget
	R	R	R	R	R
Expenditure	1,243,244,576	1,116,936,755	1,257,831,977	1,458,292,515	1,644,582,890
Transfer to Capital		152,526,230	214,330,391	213,445,072	314,708,774
Revenue	1,243,244,576	1,269,462,986	1,472,162,368	1,671,737,586	1,959,291,664
Surplus/ Deficit	0	0	0	0	0

- 3.3.3 The 2010/2011 MTREF has been prepared within the context of the global economic meltdown, taking into consideration the implications of this crisis on the local economy to ensure that the financial sustainability of the council is maintained.
- 3.3.4 Mogale City has experience the contraction in its revenue base (collection rate) emanating from the ability of consumers being able to pay for the services rendered to them. It is therefore means that more should be done with less, without compromising on essential programmes or services.
- 3.3.5 In MFMA Circular No. 51 the National Treasury provides some guidelines as to how municipalities can respond to the economic crisis in their budget preparations. "The national Budget Review 2010 notes that the South African economy is slowly recovering, with economic growth of 2, 3% projected for 2010. However, it will take some time for the economic upturn to flow through to increased municipal revenues and better cash flows, that means municipal revenues and cash flows are expected to remain under pressure in 2010/11 and so municipalities should adopt a conservative approach when projecting their expected revenues and cash receipts. Municipalities should also pay particular attention to managing all revenue and cash streams effectively, especially debtors ".
- 3.3.6 Given the constraints on the revenue side, Mogale City need to make some tough decisions on the expenditure side. Priority must be given to:

- Ensuring that drinking water meets the required quality standards at all times
- Protecting the poor from the worst impacts of the economic downturn;
- Supporting meaningful local economic development (LED) initiatives that foster micro and small business opportunities and job creation;
- Securing the health of the asset base especially the revenue generating assets by increasing spending on repairs and maintenance; and
- Expediting spending on capital projects that are funded by conditional grants.

3.3.7 In the light of the above guidelines from National Treasury, Mogale City's 2010/11 Budget was guided by the following principles:

- Producing a balanced budget;
- Maintaining fiscal sustainability and stability;
- Maintaining the commitment to deliver quality services;
- Controlling and managing the costs down;
- Maintaining all assets at a level adequate to protect the capital investment and minimise future maintenance future maintenance and replacement costs.

3.3.8 It is a government target that there should be universal access to water by 2012. It is Mogale City's priority that all residents should access to piped water. However only 3, 25% of the households are not connected to the Mogale City Water pipelines, which 1, 78% uses borehole water and 1.47% use river water. Majority of the residents have access to piped water, which is 53,951 (about 57.22%) households have access to pipe water inside the dwelling compared to 39, 33% in 2001. About 45% (38,074) households have access to pipe water in the yard. The municipality also provides 1 500 households with portable water in the rural areas and informal settlements where there is no access to piped water. According to Community Survey, sanitation levels in Mogale City are of high quality. The city never had bucket toilet areas that are serviced by the municipality. Over 80% of the households get their refuse removed once a week by the municipality in 2007. Currently there is no electricity backlog in households. Eskom is the distributor and service provider of electricity in the larger part of Mogale City. The City only services urban suburbs such as Azaadville, Noordheuwel, Munsieville, CBD and the surrounding areas.

3.3.9 Housing delivery to the poor is one of the important service delivery areas that the municipality is pursuing. According to the 2007 Community Survey, housing delivery has increased by 1.30% from 66, 13% in 2001 to 68, and 13% in 2007. Government target is to eradicate all informal settlements by 2014. The Breaking New Grounds National (BNG) programme from Department of Human Settlement is set to address this challenge. Chief Mogale housing Project is an example of BNG programme.

3.3.10 The financial position of the City is reasonably well despite the low collection rate in the 2009/10 financial year due to global financial storm. Mogale City achieved

unqualified audit reports in 2008/09, reflecting the drive towards financial management excellence in the region. In the 2008/09 financial year Mogale City achieved a spending of 64% of the total capital budget compared to 54% in 2007/08. The overall financial performance results for the 2008/09 year reflect an operating surplus of R22 million.

- 3.3.11 Mogale City's IDP is the primary point of reference for the MTREF. The IDP is influenced by the Strategic Plan document that was revised on the 11th and 12th March 2010 during the Budget Lekgotla, inputs were taken from the Local Government Turnaround Strategy, National Political Priorities and Provincial.
- 3.3.12 The IDP review has considered that there are community needs that should be prioritised to guide the allocations in the City's budget for the 2010/11 financial year. The IDP review was prepared in alignment with budget and performance management plan objectives of the municipality, resulting in the development and approval of the Service Delivery and Budget Implementation Plan (SDBIP).
- 3.3.13 Mogale City has revised its Indigent Management Policy to further enhance access to its services by poor households. This revised policy represents significant shifts from how the municipal service subsidies were administered in the past. Communication plan is developed and that details of the Indigent Policy are communicated in an easily understandable manner to the community served by the Municipality. The extent of the indigent support granted by Council to indigent households in the Municipal area will be determined based on budgetary allocation for a particular financial year and the tariff charges. The subsidy will be as follows:
- Maximum of 6 kilolitres of water
 - Maximum of 50 kw/h of electricity. Consumption not exceeding 150 kw/h.
 - Credit towards monthly refuse collection charges;
 - Credit towards monthly sewerage charges, provided that is part of Municipality's waterborne sewerage system;
 - A credit towards assessment rates based on residential property.
- 3.3.14 Mogale City will spend R10, 768 million on Free Basic Services in 2010/11 budget year.
- 3.3.15 Table A2, A3 and A4 attached to this report shows budgeted financial performance, table A6 shows budgeted financial Position and table A7 shows budgeted cash flows for financial year 2010/2011.
- 3.3.16 Charts 1, 2 and 3 bellow illustrates revenue according to sources, operational expenditure allocations according to departments (votes) for 2010/2011.

Chart 1: 2010/2011 Operational Revenue Budget: analysed by source of revenue

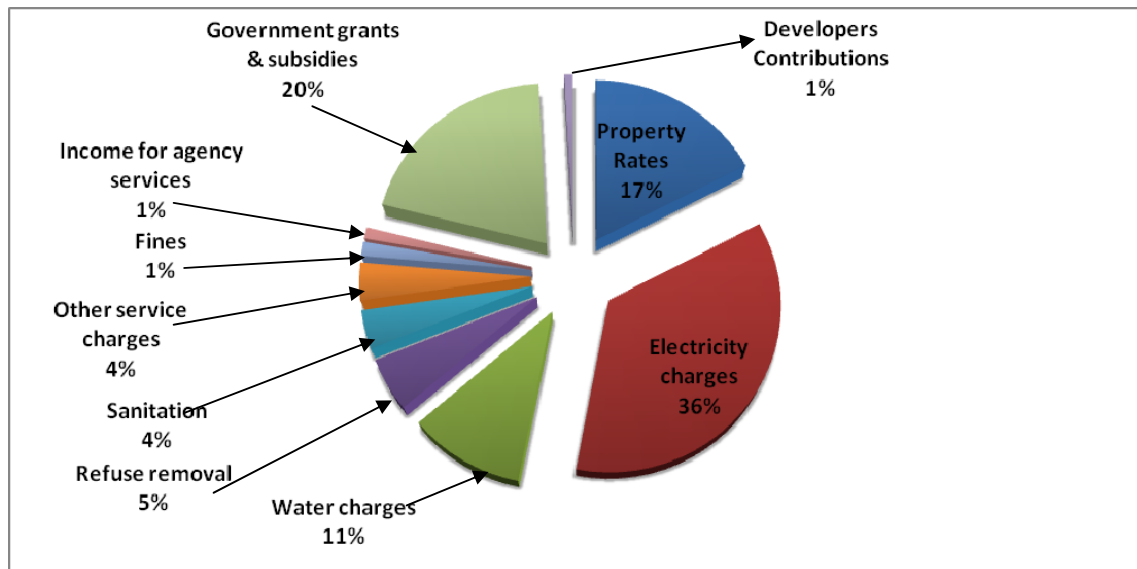


Chart 2: 2010/2011 Operational Expenditure Budget: analysed by type

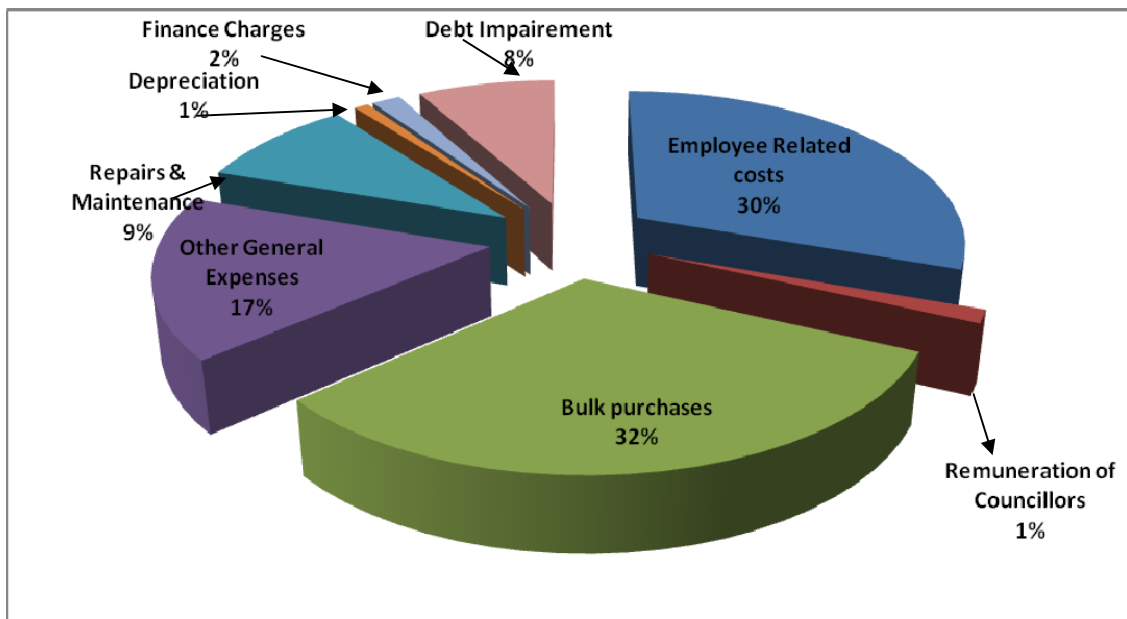
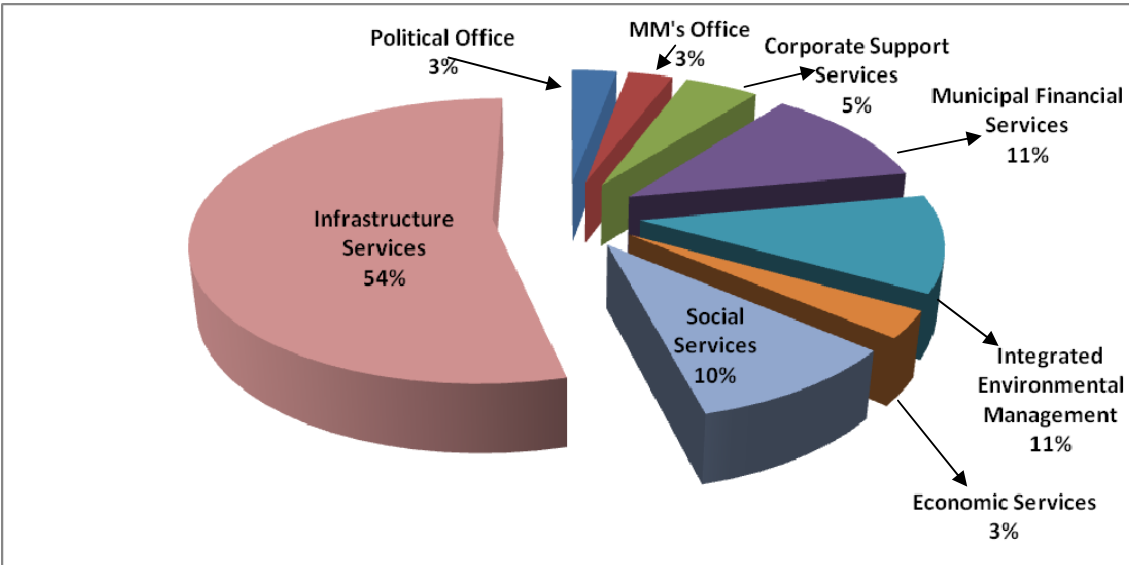


Chart 3: 2010/2011 Operational Expenditure Budget: vote allocations



3.3.2. 2010/2011 CAPITAL BUDGET

3.3.2.1 The total capital budget for Mogale City for 2010/11 is R214,330 million. This is R61,804 million above the 2009/2010 adjusted capital budget (41% above) and R11,381 million above the current year's Original Budget (11% above).

Table 2: Capital Expenditure Budget 2009/2010 to 2012/2013

	2009/2010 Original Budget	2009/2010 Adjusted budget	2010/2011 Proposed budget	2011/2012 Forecasted Budget	2012/2013 Forecasted Budget
	R	R	R	R	R
Total Expenditure	192,449,222	152,526,000	214,330,391	213,445,072	314,708,774

3.3.2.2

Details of the proposed capital budget funding are as follows:

- R110,671,323 from own source revenue generated from main tariffs.
- R8, 609,000 from Department of Water Affairs and forestry.
- R58, 363,503 from Municipal Infrastructure Grant (MIG) – The amount gazette for Mogale City in 2010/11 is R61, 226,000 however 3.30% of this amount is allowed to be used for operational expenditure (top slicing).
- R1,317,565 from Department of Local Government
- R20, 000,000 from Neighborhood Development Partnership Grant.
- R5,000,000 from Department of Mineral and Energy (INEP)
- R369, 000 from Provincial Department of Sport Arts Recreation and Culture.
- R10, 000,000 from Gauteng Social Development.

Chart 4: Funding of the 2010/2011 Capital Budget

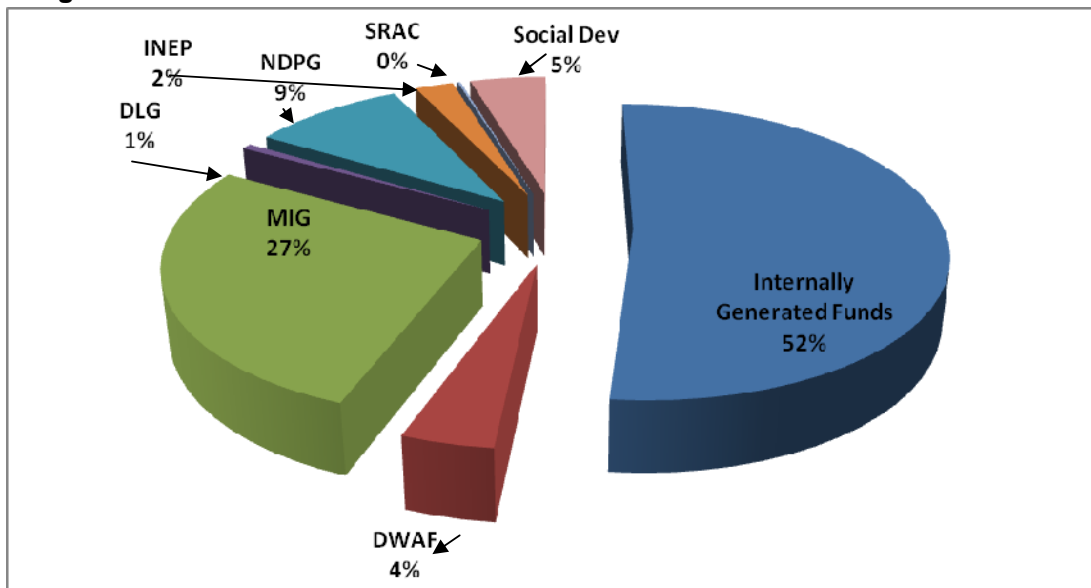
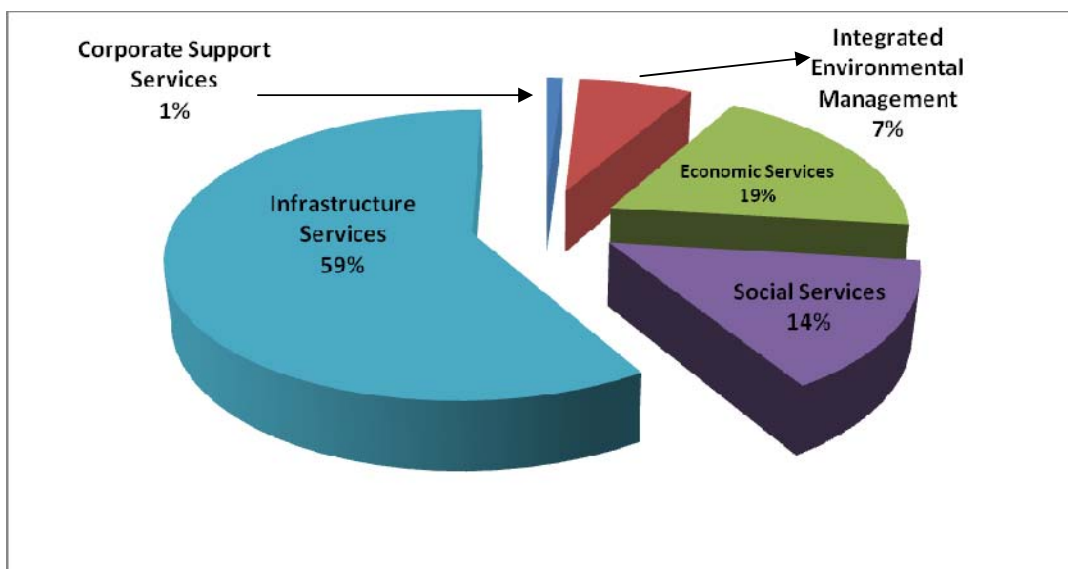


Chart 5: Capital Budget by Vote



3.3.2.3 Council also supports investments project within the municipal boundaries that are totally funded by other government sphere or private sector initiative. These projects are termed “out of books” project since the funding for the project does not flow through Mogale City `s bank account. A list of these projects is attached as schedule 2(b).

PART 2 – SUPPORTING DOCUMENTATION

2. SUPPORTING DOCUMENTATION ON THE BUDGET

2.1 2010/2011 Overview of annual budget process

- 2.1.1 **Legislative requirements:** The Municipal Finance Management Act sets out the key legislation for the budget process: These comprise the following:

Timing: The Mayor must table the annual budget of the municipality at a council meeting at least 90 days before the start of the budget year. The council must consider approval of the annual budget at least 30 days before the start of the budget year.

- 2.1.2 **Format and content of annual budget and supporting documentation:** Section 17 of the MFMA sets out the requirement of the content of the budget report and supporting documentation. In addition, National Treasury published government gazette 32141 that serves as additional regulation and guidelines on the budget report content.

- 2.1.3 The budget process for 2010/11 commenced with the IDP/Budget Strategic Planning Workshop on the 11th and 12th March 2010. The Strategic Planning Session reviewed the current strategic plan of the council in line with National Local Government Turnaround Strategy on the first of the workshop. The second day the MTFF outlining the projected budget parameters and spending levels for the 2010/11 budgeting cycles was presented.

- 2.1.4 The process was followed by another meeting with Mayoral Committee members and Executive Managers held on the 15th March 2010. The objective was to align the IDP and budget from different departments with the revised Strategic Plan and Political priorities. The decision was taken by the Executives and Political Heads that only projects ranked as a high priority in the Strategic Plan will be included in the 2010/11 Budget.

- 2.1.5 The draft 2010/11 Budget was tabled at a council meeting on the 30th March 2010. Subsequent to the tabling, the draft budget and proposed tariffs were made available on the website, libraries and ward offices for stakeholders and public comments during the statutory meetings which were held on the 23rd to 26th May 2010. As per legislative requirements (MFMA section 22(b) (i), the tabled draft budget and tariffs were submitted to National, Provincial and District municipality for comments.

2.1.6 The legislative arm of the City, under the leadership of Madam Speaker, oversees and manages the whole process of public participation.

The table below gives summary of the Statutory Public Participation:

Ward number	Venue	Date	Time
23,28,29,30,31 & 32	Nelson Mandela Hall - Tarlton	23/05/2010	09h00
All CBD Wards (East & West),24,25 & 27	Mogale City Centenary Hall	24/05/2010	18h00
1,2, 3,4,5 & all Kagiso Wards	Kagisanong Hall (Lewisham)	25/05/2010	18h00
Sector Consultations: Youth, Religion, Labour, Business, Security, CBOs, NGOs	Council Chamber	26/05/2010	11h00

The table below outlines the schedule of key deadlines as originally approved by the Executive Mayor:

28th August	<ul style="list-style-type: none"> • The Executive Mayor tables at Council for approval the IDP and Budget Process Plan in terms of Section 21 of the Municipal Systems Act and Section 34 of the Municipal Finance Management Act. • Distribution of the Council approved IDP and Budget Process Plan to all relevant stakeholders.
September	<p>Strategic Planning Session to review the current strategic plan of the Municipality, review of past service delivery performance and determine future multiyear political priorities, KPAs, KPIs and Programmes.</p> <p>The Budget Office prepares an initial Medium Term Financial Forecast (MTFF) and indicates the likely level of resources to be available.</p>
October	<p>Public Consultation Process with the community, and other key stakeholders on service delivery performance for the prior year and current year-to-date. Share information on the political priorities and programmes planned for the year/s ahead. Confirmation of ward based priority needs for the year/s ahead.</p>
November	<p>Compile report on the needs for the year/s ahead obtained from the community and other key stakeholders.</p> <p>Prioritisation process of community needs and projects.</p> <p>Executive Managers complete the stage 1 IDP/Budget/SDBIP process input forms (IDP changes, capital project proposals, and operational budget growth requests).</p>

December	<p>Second Strategic IDP/Budget Workshop for Mayoral Committee members and Senior Management Team: outcomes</p> <ul style="list-style-type: none"> • IDP proposals and Budget alignment • Agreement of any changes the Executive Mayor should propose to the IDP for 2010/11. • Agreement on the Executive Mayor's initial capital and operational budget proposals for 2010/11. • Agreement on the Executive Mayor's initial proposals on tariffs and taxes for 2010/11. • Review of the draft mid-year performance and budget monitoring reports. • Agreement of the draft 2010/11 Adjustments Budget Report to be tabled at Council (if required). <p>Finalise the review of the Municipal Situational Analysis Chapter (Chapter 2) of the IDP.</p> <p>Finalise the Municipal Strategies Chapter (Chapter 3) of the IDP.</p> <p>Finalise the Projects Chapter (Chapter 4) of the IDP.</p>
January	<p>The Executive Mayor tables at Council:</p> <ul style="list-style-type: none"> • the 2009/10 mid-year performance and budget assessment reports • The 2009/10 Adjustments Budget Report, if one is required. • The 2008/09 Annual Report

February	<p>Executive Managers complete their stage 2 IDP/budget /SDBIP process input forms.</p> <p>Executive Management Team meets to:</p> <ul style="list-style-type: none"> • prepare for the 3rd Strategic IDP/Budget/SDBIP Workshop • discuss the draft 2010/2011 IDP inputs • discuss the 2010/2011 budget proposals <p>Finalise the Financial Framework Chapter (Chapter 5) of the IDP</p> <p>Finalise the Sector Plans Chapter (Chapter 6) of the IDP</p>
March	<p>Third Strategic IDP/Budget Workshop for Mayoral Committee members and Senior Management Team: outcomes</p> <ul style="list-style-type: none"> • Agreement of the proposed changes to be made to the IDP to be included in the March Council Report. • Agreement of the 2010/11 budget proposals to be included in the March Council Budget Report. <p>The IDP, Budget Report, and draft SDBIP tabled at all relevant Portfolio Committees and Mayoral Committee prior to tabling at Council.</p> <p>The Executive Mayor tables the Municipality's Draft 2010/11 Budget Report and IDP at Council.</p>
April	<p>Statutory public participation process undertaken on the tabled Draft IDP and Budget for 2010/2011. Council obtains the views of the local community, National Treasury, Provincial Treasury, other district, provincial and national organs of state and municipalities.</p> <p>Compilation of the Draft 2010/2011 SDBIP.</p>

<p>May</p>	<p>A report on the representations arising from the statutory consultation exercise is written.</p> <p>Fourth Strategic IDP/Budget Workshop for Mayoral Committee members and Senior Management Team: outcome</p> <ul style="list-style-type: none"> • To decide whether Council needs to be asked to make changes to the IDP/Budget Report tabled in March to incorporate representations from the community and other stakeholders, and for other reasons unforeseen in March. <p>The IDP, Budget Report, and draft SDBIP tabled at all relevant Portfolio Committees and Mayoral Committee prior to tabling at Council.</p> <p>The Executive Mayor tables the Municipality's 2010/11 Budget Report, IDP, and draft SDBIP at Council for final approval.</p>
<p>June</p>	<p>The IDP and Budget Reports are placed on the municipality's website and sent to National and Provincial Treasuries.</p> <p>The Executive Mayor must agree and approve the 2010/2011 SDBIP within 28 days after approval of the budget and ensure that annual performance contracts are concluded in accordance with section 57(2) of the Municipal Systems Act. The Executive Mayor to ensure that the annual performance agreements are linked to the measurable performance objectives approved with the budget and SDBIP. The Executive Mayor submits the approved 2010/2011 SDBIP and performance agreements to Council, MEC for local government, and makes it public within 14 days after approval.</p>

2.2 Overview of alignment of annual budget with Integrated Development Plan

2.2.1 The IDP review follows from the City's vision to provide quality service delivery for all in Mogale City. Furthermore, the IDP review has considered that there are community needs that should be prioritised to guide the allocations in the City's budget for the 2010/11 financial year. This review is prepared alignment with the budget, performance management plan objectives and Strategic Plan.

2.2.2 The Political priorities for Mogale City has set out the following:

- **To provide sustainable services to the community**
 - Physical infrastructure services
 - Social services
 - Economic Services
- **To promote a sustainable environmental management system**
 - Open space management (parks, cemeteries)
 - Municipal health (waste management, public health)
 - Environmental compliance facilitation
- **To provide sustainable governance for local communities**
 - Broaden local democracy
 - Local government accountability
- **To ensure sustainable governance practices within the Municipality**
 - Corporate governance practices (legal compliance)
 - Business leadership / management (planning, structuring, culture, performance management, stakeholder relations management, communication)
 - Resource management (people management, financial management, ICT management, asset management)

Tables below (SA5 & SA6) reflect the alignment between the IDP & the Budget in detail:

GT481 Mogale City - Supporting Table SA5 Reconciliation of IDP strategic objectives and budget (operating expenditure)

Strategic Objective R thousand	Goal	2010/11 Medium Term Revenue & Expenditure Framework		
		Budget Year 2010/11	Budget Year +1 2011/12	Budget Year +2 2012/13
To promote sustainable environmental management system.	To provide for open space management (parks and cemeteries), municipal health (waste management and public health) and environmental facilitation.	396 845	491 735	532 034
To provide sustainable governance practices for local communities and ensure sustainable governance practice within the municipality.	To broaden local democracy, local government accountability, best corporate governance practice, business leadership, resource management and program management.	101 782	113 078	127 722
To provide physical infrastructure	To avail and maintain municipal buildings, plant and equipments and municipal infrastructure	657 424	740 402	857,105
To provide social services	To provide community development, public safety and social amenities	38 168	42 404	47 896
To provide economic services	to provide local economic development, urban and rural development, rural and human settlement planning	63 613	70 674	79 826
		1,257,832	1 458 293	1 644,583

GT481 Mogale City - Supporting Table SA6 Reconciliation of IDP strategic objectives and budget (capital budget expenditure)

City of Tlokega City Supporting Table One Reconciliation of IDP Strategic Objectives and Budget (Capital)		2010/11 Medium Term Revenue & Expenditure Framework		
Strategic Objective	Goal	Budget Year 2010/11	Budget Year +1 2011/12	Budget Year +2 2012/13
R thousand				
To promote sustainable environmental management system.	To provide for open space management (parks and cemeteries), municipal health (waste management and public health) and environmental facilitation.	21 694	42 819	76 901
To provide sustainable governance practice for local communities and ensure sustainable governance practice within the municipality.	To broaden local democracy, local government accountability, best corporate governance practice, business leadership, resource management and program management.	9 164	30 240	56 872
To provide physical infrastructure	To avail and maintain municipal buildings, plant and equipments and municipal infrastructure	159 595	106 387	118 342
To provide social services	To provide community development, public safety and social amenities	20 211	30 240	56 871
To provide economic services	to provide local economic development, urban and rural development, rural and human settlement planning	3 666	3 759	5 723
		214 330	213 445	314 709

2.3 Measurable performance objectives and indicators

2.3.1 As per MFMA Circular no.51: National Treasury raises concern about the quality of municipal drinking water and failures in the management of waste water. Municipalities should include a section on “**Drinking water quality and waste water management**’ in their 2010/11 budget document supporting information (NT recommends that it form part of this section). The following information is required:

- **Name of the Water Service Authority:** Mogale City Local Municipality.
- **Water Service Provider:** Rand Water
- **The Blue Drop Performance ratings:** 96.7% (see attach Blue Drop Report 2010, source Department of Water Affairs)
- **The Green Drop Performance ratings:** 33%
- **Areas of concern:**
 - In terms of the blue drop performance area of concern is only finalisation of the water safety plan, linked with securing management commitment.
- **In terms the green drop performance:**
 - Rating for wastewater. Mogale City performed badly due to number of reasons. The City has 3 treatment plants namely, Magaliesburg Water Care Works, Flip Human Water Care Works and Percy Stewart Water Care Works. The design capacity for Flip Human is 50 ml/d receiving average flows is approximately 22 ml/d, while Magaliesburg design capacity is 1.1 ml/d average flows is about 0.1 ml/d and Percy Stewart design capacity is 15 ml/d average receiving flows is 18 ml/d. Mogale City has developed Integrated Infrastructure Master Plan to upgrade Percy Stewart by 20 ml/d but currently only extending by 10 ml/d. Flip Human still sufficient for the next 10 to 15 years and Magaliesburg Water Care Works will expand by 5 ml/d to accommodate developmental needs of the concern area.
- **Current Status of the Water Safety Plan and implementation:**
 - The City is negotiating with Rand Water to improve our water safety plan, in particular the indices management protocol and looking at rural areas boreholes.

- **Problems that municipality experience with regards to management of drinking water and sewerage:**
 - Supplying sustainable water to rural areas and informal settlements and rural boreholes is not sustainable as underground water dries out during the dry seasons. The water quality from boreholes has high turbidity (soapy colour).
 - Regarding sewerage the problem is spare capacity on the bulk sewer infrastructure (Waste Treatment Works), for example Percy Stewart overloading. Rural nodes of Mogale City do not have waste water treatment works and associated bulk sewer infrastructure.
- **Steps to be taken to address problems mentioned above:**
 - Appropriate funding model to be developed (both internal & government grant funding).
 - Publications of both water & wastewater for purpose of stakeholder's awareness will be done in the next financial year.

2.4 **Overview of budget-related policies**

- 2.4.1 Various policies approved by Council underpin governance and the financial functioning of the municipality and are relevant to the budget process. The purpose of this section of the Budget Report is to indicate the key policies in this regard and to seek approval for any new or amended policies by Council.
- 2.4.2 The following are the key policies that affect or are affected by the annual budget:
- Credit Control and Debt Collection Policy (**Annexure 13**)
 - Indigent Management Policy (**Annexure 14**)
 - Budget Management Policy (**Annexure 15**)
 - Property Rates Policy (**Annexure 16**)
 - Asset Management of Immovable Property, Plant and Equipment (**Annexure 17**)
 - Supply Chain Management Policy (**Annexure 18**)
 - Investment, borrowing and cash management Policy (was approved last financial year)

2.4.3 Changes are proposed to the 2009/2010 Property Rates Policy as follows:

- 1 Par 7.1.4: under bullet point number 3, add the word business so that it reads as follows, "Commercial and business purposes instead of commercial purposes only"
- 2 Par 7.1.4 : add bullet point number 4, to read as follows, " other purposes other than those specified above
- 3 Par 8.1(b)(ii) : to read as follows, "The rateable property in question must be owned by the pensioner and may be occupied by only the applicant and his/her spouse, if any, and by dependants with no income, or by certain persons in specific circumstances at the discretion of the Chief Financial Officer. However, the rateable property excludes residential properties i.e. old age homes that are occupied but not owned by the pensioners".
- 4 Par 13.1 (a): To insert the sentence which reads as follows, "Nevertheless, The R 25 000 reduction in market value and the 40% rebate is not applicable to the residential properties that are vacant".
- 5 Par 13.1 (b) : To insert the sentence which reads as follows, " The rate takes into account the socio-economic contributions that farmers make with respect to job creation, accommodation, provision of services to RDP standard as per National Policy.

2.4.4 Changes are proposed to the 2005/206 Supply Chain Management as follows:

- **Written or verbal quotations (0 to R 2000)**

15.1 Petty cash purchases (0 to a maximum transaction value of R 500)

(Please note that this portion is not applicable to salary and wage pay outs made from petty cash through the Salary office)

The conditions for the procurement of goods by means of petty cash purchases referred to in paragraph 12 (1) (a) of this Policy, are as follows:

- (a) The relevant Executive Manager/Manager of delegated official to authorize all petty cash purchases, up to a maximum of R 500 per transaction and up to a maximum of R 2 000 per month per manager/section with a maximum of R 10 000 per department per month;
- (b) The following expenditure may only be incurred from petty cash in cases of urgency:
 - ❖ Any item that is a Stores stock item.
- (c) A monthly reconciliation report from each Executive Manager must be provided to the chief financial officer, including –
 - (i) the total amount of petty cash purchases for that month for the relevant department per manager/section; and
 - (ii) receipts and appropriate documents for each purchase to be provided to Expenditure Section for re-imbursement.

- (d) A quarterly report from the chief financial officer must be provided to the Finance Portfolio on the total amount of petty cash purchases per Department.
- (e) If any department or section does not comply with the abovementioned or any other requirements from the Expenditure Section, the Chief Financial Officer will terminate their option to procure through petty cash.

2.5 Overview of budget assumptions

2.5.1 Introduction:

- This section of the budget report provide comprehensive summary of all the assumption used in the budget proposal. Budgets are prepared in an environment of uncertainty and assumptions need to be made about both internal and external factors that could impact on the budget during the course of the financial year.
- It should be noted the longer the longer the period the more uncertainly and vice versa, the two outer period as presented on the budget are more likely to be missed than the 2010/11 estimates.

2.5.2 National economic outlook: Domestic GDP growth is projected to grow by average of 2% in 2010 and grow above this projected figure in 2010/11. During the compilation of this budget only inflationary increase of 6.2% was assumed, no local economic growth was considered for the determination of tariffs.

2.5.3 National inflation focus, during the compilation of this budget the inflation rate was estimated to be 6.3% by Statistics South Africa. National Treasury estimate inflation rate of 5.7% and 6.2% in 2010 and 2011 respectively. Inflation rate is expected to come within the targeted range of 6-3% in 2012.

2.5.4 Prices increases on various items on the budget were assumed as follows:

- Employees related costs were increased by 8.5% based on the multiyear agreement signed between organized labour and employer. The agreement awarded an increase of 1.5% and 2.5% above inflation rate in 2010/11 and 2011/12 respectively.
- General expenditure and R&M: Most of the items on general expenditure have been increased from the approved 2009/10 Adjustment Budget figure by 5.7% for 2010/11 in line with National Treasury's forecast CPIX inflation and 6.2% and 5.9% for the two outer years. Repairs and maintenance have increased by 56% due to higher budget allocated to municipal buildings, street light maintenance and road maintenance arising from heavy rains experience during 2010/11. Street lighting have been increased by almost 75%.

- 2.5.4.1 Price movements on bulk purchases:** Based on correspondence received from Rand Water and announcement made by NERSA. According to correspondence received from Rand Water tariffs will increase by 14.1% and NERSA announced 24.8%, however municipalities were only allowed to increase their tariffs by 15.3%.
- 2.5.5 Remuneration of councilors:** Councilors remunerations were increased by 9% mainly due to lower than budgeted increase in the current year and 6% increase in the current year.
- 2.5.6 Overtime and leave payment:** it was assumed that leave will be paid only on termination due to resignation or death. It was assumed that the municipality will not purchase any leave in cash during the year. Overtime was budget based on municipal overtime policy and legislation that exempt employee earning more than R140k from earning overtime.
- 2.5.7 Depreciation Expenses:** Depreciation expenses increase by 6% based on the current expenses and 6% increase in acquisition of new assets.
- 2.5.8 Interest on borrowing:** Currently prime lending rate is 10% and based on the inflation rate above, stable interest rate is expected during the budget period under review.
- 2.5.9 Collection rate:** collection rate of 89% was assumed during 2010/11 budget period. This was based on the current collection rate, and the fact that the focus economic growth suggests no major improvement in collection levels.

2.6 Overview of budget funding

2.6.1 Funding of the budget: Section 18(1) of the MFMA states that the annual budget may only funded from:

- Realistically anticipated revenue.
- Cash backed accumulated funds, from previous year's surplus not committed for other purpose.
- Borrowed funds but only for financing of capital budget.

2.6.2 Key funding for operating budget: The operating budget is mainly funded by main tariffs. i.e. Property rate, Electricity, Water and Sanitation as well as refuse removal. Billed revenue from these sources is expected to amount to R1, 070,333 billion or 79% of the total revenue. Another key funding source (14% of the overall operating funding) is operating grants – of which Equitable Share amounts to R173, 321 million.

2.6.3 Funding source for the Capital Budget: Confirmed to date Capital Budget is funded largely from government grants, mainly from MIG which amounted to R58.3 million in 2010/11. The own funded projects is proposed to be funded from own funding to the value of R100,171 million. **The rest will be funded from as follows:**

- Neighborhood Development Partnership Grant: R20,000,000
- Integrated National Electrification Program :R5,000,000
- Provincial Department of Sports, Recreation , Arts and Culture: R369,000
- Department of Water Affairs: R8,609,000
- Department of Local Government: R1,317,565
- Gauteng Department of Social Development: R10,000,000

Table 3: Property rates Act

	2009/2010 Original Budget	2009/2010 Adjusted budget	2010/2011 Proposed budget	2011/2012 Forecasted Budget	2012/2013 Forecasted Budget
Budget revenue	242,742,171	351,877,220	387,064,942	418,030,137	451,472,548
Revenue forgone	62,237,507	119,426,561	131,369,217	141,878,754	153,229,054
% Increase	11.27%	22.3%	10%	8%	8%

2.6.4 Property Rates: The proposed increase for Property Rates is 10% during the financial year 2010/11. This rate is based on the existing valuation roll.

Table 4: Electricity

	2009/2010 Original Budget	2009/2010 Adjusted budget	2010/2011 Proposed budget	2011/2012 Forecasted Budget	2012/2013 Forecasted Budget
Budget revenue	447,868,180	452,133,880	524,983,900	660,429,747	831,481,051
% Increase	35.9%	0,95%	16%	25,8%	25,9

2.6.5 The 2010/11 electricity revenue has assumed 15.3% increased as result of NERSA decision to allow municipalities to increase electricity tariffs by the same percentage. The present tariffs structure does not consider the depreciation on the infrastructure used to deliver this service.

Table 5: Water Revenue

	2009/2010 Original Budget	2009/2010 Adjusted budget	2010/2011 Proposed budget	2011/2012 Forecasted Budget	2012/2013 Forecasted Budget
Budget revenue	163,138,993	138,140,233	157,618,006	181,733,561	209,538,795
% Increase	15,3%	-15,3%	14,1%	15,3%	15.3%

2.6.6 Water revenue was increased by 14.1% based on indications from Rand Water to increase water charges by the same percentage. This tariff does not take into consideration any infrastructure used to deliver this service.

Table 6: Sanitation Revenue

	2009/2010 Original Budget	2009/2010 Adjusted budget	2010/2011 Proposed budget	2011/2012 Forecasted Budget	2012/2013 Forecasted Budget
Budget revenue	61,229,048	50,486,305	55,534,935	59,997,730	64,775,948
% Increase	10%	18%	10%	8%	8%

Table 7: Refuse Collection

	2009/2010 Original Budget	2009/2010 Adjusted budget	2010/2011 Proposed budget	2011/2012 Forecasted Budget	2012/2013 Forecasted Budget
Budget revenue	52,222,190	67,093,178	73,802,496	79,706,696	86,083,232
% Increase	10%	28%	10%	8%	8%

2.7 Expenditure on allocations and grant programmes:

See attached Supporting Table SA 18, SA19, and SA19 for more details.

2.8 Allocations on grants made by the municipality

- 2.8.1** Section 17 (j) of the MFMA requires the municipality to disclose in its budget documentation the amounts of any proposed allocations or grants by the municipality to other municipalities, municipal entities, other organs of state or any outside body/organization. The Council allocates grants-in-aid, discretionary grants, and grants by councillors (included in the operating budget) on an annual basis to needy organizations, based on business plans indicating the proposed usage of such funds. **See attached Supporting Table SA21.**

2.9 Councillors and board member allowances and employee benefits

- 2.9.1** Section 17 (k) of the MFMA requires the municipality to disclose in its budget documentation the proposed costs to the municipality for the budget year of the salary, allowances and benefits of –
- i. each political office-bearer of the municipality;
 - ii. councillors of the municipality; and
 - iii. The municipal manager, the chief financial officer, each senior manager of the municipality and any other official of the municipality having a remuneration package greater than or equal to that of a senior manager. **See attach Supporting Tables SA2, SA23 and SA24.**

2.10 Monthly targets for revenue, expenditure and cash flow

- 2.10.1** Section 17(1) of the MFMA and the new regulations requires the municipality to disclose in its budget documentation monthly targets for revenue, expenditure and cash flow. **See attach Supporting Tables SA25, SA26, SA27, SA28, SA29, & SA30 for more details.**

2.10.2 CASH FLOW PROJECTION

It is projected that the new financial year will be kicked off with a zero balance.

- 2.10.2.1 We project to start the year with zero balance cash / cash equivalents and project an average collection rate for the coming financial year of 89%. Based on these assumptions the projected income for the year exceeds the projected expenditure for the year by R305k.
- 2.10.2.2 The average collection rate for main tariffs for the current financial year to date is 88%. When other income is added the collection rate is decreased to 87%.
- 2.10.2.3 It is suggested that the proposed expenditure levels are maintained and not be increased at this stage. In the light of the current economic environment and slow recovery from recession it would be prudent to budget for a higher than normal cash in hand for buffer as the said economic circumstances may cause the proposed collection rate of 89% not to be achieved. Therefore Mogale City will have to monitor its operational expenditure closely and safe as much as possible, curb all non essential and non service delivery expenditure and ensure that the budgeted collection rate is achieved to enable the municipality to function efficiently and deliver services to the community.
- 2.10.2.4 It is recommended that Mogale City's proposed operating and own funded capital budget is maintained for the time being and if the collection rate of 89% is proved to be achievable and maintainable, the surplus that may become available could then be utilized to motivate an increase in the own funded capital budget at the time when the municipality considers its adjustments budget.

2.11 Legislation compliance status

2.11.1 Municipal Finance Management Act (MFMA): The municipality is classified as high- capacity by National Treasury with respect to the municipal financial management reforms required by the MFMA. Government Gazette No. 32141 requires the Mayor of the municipality to establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in Section 53 of the Act.

2.11.2 The role of the Budget Steering Committee is to:

- To recommend to Council the approval of the process and timescales to be followed,
- To monitor progress and take remedial action if things are not going according to the process plan,
- Agree to the formats of the IDP, Budget Report and SDBIP (taking into account the requirements of the MFMA),
- Agree to the public consultation process to be followed for the IDP and budget proposals,
- Provide political and senior management oversight on the IDP/Budget process plan implementation and proposals emerging from the process

2.11.3 The Committee sits on a monthly basis whereby the MFMA Implementation Plan is presented and updated. The updated plan is sent to National Treasury quarterly. The section 71 reports of the MFMA to National Treasury have also been compiled with and have improved over time.

2.11.4 The reform agenda set out through the Municipal Finance Management Act provides new accounting standards, which includes national standards such as Generally Recognised Accounting Practice (GRAP) and Generally Accepted Municipal Accounting Practice (GAMAP). These above mentioned accounting practices have been adhered to during the development of the budget.

2.11.5 Mogale City's financial statements were prepared to comply with GRAP/GAMAP since 2004/05 financial year.